

CITY OF HARTLEY

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2012

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CITY OF HARTLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2012)		
Clayton Pyle	Mayor	January, 2012
Kevin Snider	Council Member	January, 2012
Gina Wiekamp	Council Member	January, 2012
Ron Hengeveld	Council Member	January, 2014
Brad Meendering	Council Member	January, 2014
Jerry Olson	Council Member	January, 2014
Brian Pals	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite
(After January, 2012)		
Clayton Pyle	Mayor	January, 2014
Ron Hengeveld	Council Member	January, 2014
Brad Meendering	Council Member	January, 2014
Jerry Olson	Council Member	January, 2014
Kevin Snider	Council Member	January, 2016
Gina Wiekamp	Council Member	January, 2016
Brian Pals	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
RICHARD R. MOORE, C.P.A. (RETIRED)  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W. J. HUNZELMAN, C.P.A. 1921-1997

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. Budgetary comparison information on pages 22 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Hungelman, Putzier + Co., PLC*

March 29, 2013

CITY OF HARTLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit A

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 260,136	\$ 71,555	\$ 18,996	\$ -	\$ (169,585)	\$ -	\$ (169,585)
Public works	221,535	23,463	158,591	1,040	(38,441)	-	(38,441)
Culture and recreation	195,145	28,272	13,811	-	(153,062)	-	(153,062)
Community and economic development	159,956	-	29,198	66,531	(64,227)	-	(64,227)
General government	94,302	630	-	-	(93,672)	-	(93,672)
Debt service	120,210	-	-	-	(120,210)	-	(120,210)
Total governmental activities	<u>1,051,284</u>	<u>123,920</u>	<u>220,596</u>	<u>67,571</u>	<u>(639,197)</u>	<u>-</u>	<u>(639,197)</u>
Business-type activities:							
Water	478,755	434,442	-	5,000	-	(39,313)	(39,313)
Sewer	345,554	226,036	-	-	-	(119,518)	(119,518)
Electric	1,484,652	1,548,323	-	-	-	63,671	63,671
Gas	551,408	567,160	-	-	-	15,752	15,752
Solid Waste	202,157	154,872	-	-	-	(47,285)	(47,285)
Consumer Deposit	16,449	19,779	-	-	-	3,330	3,330
Cable	128,265	121,089	-	-	-	(7,176)	(7,176)
Total business-type activities	<u>3,207,240</u>	<u>3,071,701</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>(130,539)</u>	<u>(130,539)</u>
Total	<u>\$ 4,258,524</u>	<u>\$ 3,195,621</u>	<u>\$ 220,596</u>	<u>\$ 72,571</u>	<u>(639,197)</u>	<u>(130,539)</u>	<u>(769,736)</u>
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					319,091	-	319,091
Debt service					32,083	-	32,083
Tax increment financing					260,922	-	260,922
Local option sales tax					149,112	-	149,112
Unrestricted interest on investments					29,546	56,044	85,590
Sale of assets					701	-	701
Miscellaneous					29,039	-	29,039
Transfers					(41,121)	41,121	-
Total general receipts and transfers					<u>779,373</u>	<u>97,165</u>	<u>876,538</u>
Change in cash basis net assets					140,176	(33,374)	106,802
Cash basis net assets beginning of year					<u>1,094,008</u>	<u>2,219,430</u>	<u>3,313,438</u>
Cash basis net assets end of year					<u>\$ 1,234,184</u>	<u>\$ 2,186,056</u>	<u>\$ 3,420,240</u>

(continued)

CITY OF HARTLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit A  
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for	Operating	Capital	Governmental	Business Type	Total
Disbursements	Services	Grants and	Grants and	Activities	Activities	
		Contributions	Contributions			
Cash Basis Net Assets						
Restricted:						
Nonexpendable:						
Cemetery perpetual care				\$ 92,552	\$ -	\$ 92,552
Expendable:						
Streets				232,251	-	232,251
Tax increment financing projects				108,316	-	108,316
Debt service				71,784	597,295	669,079
Other purposes				473,345	-	473,345
Unrestricted				255,936	1,588,761	1,844,697
Total cash basis net assets				<u>\$ 1,234,184</u>	<u>\$ 2,186,056</u>	<u>\$ 3,420,240</u>

See notes to financial statements

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B

	Special Revenue						Total
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust	Nonmajor	
Receipts:							
Property tax	\$ 216,426	\$ -	\$ -	\$ -	\$ -	\$ 134,748	\$ 351,174
Tax increment financing	-	-	-	260,922	-	-	260,922
Other city tax	-	-	149,112	-	-	-	149,112
Licenses and permits	4,435	-	-	-	-	-	4,435
Use of money and property	55,258	-	-	-	6,380	-	61,638
Intergovernmental	25,592	159,631	-	-	-	66,531	251,754
Charges for services	81,780	-	-	-	-	-	81,780
Miscellaneous	31,136	-	-	-	-	40,630	71,766
Total receipts	<u>414,627</u>	<u>159,631</u>	<u>149,112</u>	<u>260,922</u>	<u>6,380</u>	<u>241,909</u>	<u>1,232,581</u>
Disbursements:							
Operating:							
Public safety	260,136	-	-	-	-	-	260,136
Public works	80,533	141,002	-	-	-	-	221,535
Culture and recreation	162,721	-	-	-	32,424	-	195,145
Community and economic development	633	-	-	250	-	159,073	159,956
General government	94,302	-	-	-	-	-	94,302
Debt service	-	-	-	36,547	-	83,663	120,210
Total disbursements	<u>598,325</u>	<u>141,002</u>	<u>-</u>	<u>36,797</u>	<u>32,424</u>	<u>242,736</u>	<u>1,051,284</u>
Excess (deficiency) of receipts over disbursements	<u>(183,698)</u>	<u>18,629</u>	<u>149,112</u>	<u>224,125</u>	<u>(26,044)</u>	<u>(827)</u>	<u>181,297</u>
Other financing sources (uses):							
Operating transfers in	190,024	4,262	-	14,507	-	156,024	364,817
Operating transfers out	-	(14,507)	(132,157)	(158,591)	-	(100,683)	(405,938)
Total other financing sources (uses)	<u>190,024</u>	<u>(10,245)</u>	<u>(132,157)</u>	<u>(144,084)</u>	<u>-</u>	<u>55,341</u>	<u>(41,121)</u>
Net change in cash balances	6,326	8,384	16,955	80,041	(26,044)	54,514	140,176
Cash balances beginning of year	<u>249,610</u>	<u>223,867</u>	<u>98,053</u>	<u>28,275</u>	<u>233,060</u>	<u>261,143</u>	<u>1,094,008</u>
Cash balances end of year	<u>\$ 255,936</u>	<u>\$ 232,251</u>	<u>\$ 115,008</u>	<u>\$ 108,316</u>	<u>\$ 207,016</u>	<u>\$ 315,657</u>	<u>\$ 1,234,184</u>

(Continued)



CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B  
 (Continued)

	Special Revenue					Nonmajor	Total
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust		
Cash Basis Fund Balances							
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,552	\$ 92,552
Restricted for:							
Debt service	-	-	-	-	-	71,784	71,784
Tax increment financing	-	-	-	108,316	-	-	108,316
Streets	-	111,306	-	-	-	-	111,306
Other purposes	-	-	115,008	-	207,016	151,321	473,345
Assigned for equipment	127,142	120,945	-	-	-	-	248,087
Unassigned	128,794	-	-	-	-	-	128,794
Total cash basis fund balances	<u>\$ 255,936</u>	<u>\$ 232,251</u>	<u>\$ 115,008</u>	<u>\$ 108,316</u>	<u>\$ 207,016</u>	<u>\$ 315,657</u>	<u>\$ 1,234,184</u>

See notes to financial statements

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Exhibit C

	Enterprise						
	Water	Sewer	Electric	Gas	Cable	Nonmajor	Total
Operating receipts:							
Use of money and property	\$ -	\$ -	\$ 3,659	\$ -	\$ -	\$ 730	\$ 4,389
Charges for services	430,223	222,031	1,536,647	561,548	31	154,142	2,904,622
Miscellaneous	4,220	4,005	8,017	5,612	121,058	19,779	162,691
Total operating receipts	434,443	226,036	1,548,323	567,160	121,089	174,651	3,071,702
Operating disbursements:							
Business type activities	340,285	225,855	1,303,397	551,408	10,410	218,606	2,649,961
Excess (deficiency) of operating receipts over operating disbursements	94,158	181	244,926	15,752	110,679	(43,955)	421,741
Non-operating receipts (disbursements)							
Interest on investments	7,323	1,446	28,409	8,569	7,749	2,548	56,044
Intergovernmental	5,000	-	-	-	-	-	5,000
Debt service	(105,039)	(119,700)	(181,255)	-	(117,855)	-	(523,849)
Capital projects	(33,431)	-	-	-	-	-	(33,431)
Net non-operating receipts (disbursements)	(126,147)	(118,254)	(152,846)	8,569	(110,106)	2,548	(496,236)
Excess (deficiency) of receipts over disbursements	(31,989)	(118,073)	92,080	24,321	573	(41,407)	(74,495)
Transfers in	-	119,723	-	-	-	-	119,723
Transfers out	-	-	(48,161)	(30,441)	-	-	(78,602)
	-	119,723	(48,161)	(30,441)	-	-	41,121
Net change in cash balances	(31,989)	1,650	43,919	(6,120)	573	(41,407)	(33,374)
Cash balances beginning of year	256,066	43,383	1,133,297	330,287	260,507	195,890	2,219,430
Cash balances end of year	\$ 224,077	\$ 45,033	\$ 1,177,216	\$ 324,167	\$ 261,080	\$ 154,483	\$ 2,186,056
Cash Basis Fund Balances							
Restricted for debt service	\$ 84,912	\$ 10,057	\$ 384,348	\$ -	\$ 117,978	\$ -	\$ 597,295
Unrestricted	139,165	34,976	792,868	324,167	143,102	154,483	1,588,761
Total cash basis fund balances	\$ 224,077	\$ 45,033	\$ 1,177,216	\$ 324,167	\$ 261,080	\$ 154,483	\$ 2,186,056

See notes to financial statements

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2012:

Receipts:

Contributions from other governments:

City of Hartley	\$ 81,000
City of Sanborn	69,000
Interest	126
	<u>150,126</u>

Disbursements:

Salaries	62,937
Benefits	29,733
Workers compensation insurance	7,187
Property insurance	6,520
Diesel fuel	28,296
Truck maintenance and repairs	12,952
Professional fees	450
Miscellaneous	750
	<u>148,825</u>

Net	1,301
Balance, beginning of year	6,285
Balance, end of year	<u>\$ 7,586</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 33.1% interest in Community Cable Television Agency of O'Brien County, a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2012, is \$334,264.

Jointly Governed Organizations -The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2012, were \$18,775.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's natural gas system.

The Cable Fund accounts for receipts and disbursements from the City's cable television system as maintained by Community Cable Television Agency of O'Brien County.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

2. CASH

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

The City had investments in the Iowa Public Agency Investment Trust valued at \$15,823 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending	Revenue Notes		General Obligation Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 415,000	\$ 106,467	\$ 95,000	\$ 26,712	\$ 510,000	\$ 133,179
2014	417,000	97,991	51,000	22,373	468,000	120,364
2015	427,000	88,332	53,000	20,295	480,000	108,627
2016	436,000	77,251	54,000	18,138	490,000	95,389
2017	374,000	65,958	55,000	15,947	429,000	81,905
2018-2022	928,000	208,296	170,000	54,175	1,098,000	262,471
2023-2027	622,000	72,086	165,000	28,275	787,000	100,361
2028-2031	131,000	6,434	73,000	3,575	204,000	10,009
	<u>\$ 3,750,000</u>	<u>\$ 722,815</u>	<u>\$ 716,000</u>	<u>\$ 189,490</u>	<u>\$ 4,466,000</u>	<u>\$ 912,305</u>

The code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$36,548 of general obligation bond principal and interest was paid from the Tax Increment Financing Fund during the year ended June 30, 2012.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

3. NOTES PAYABLE - (Continued)

Revenue Notes

Water

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$400,000 and \$1,000,000 in water revenue notes issued in November, 2003 and July, 2009. Proceeds from the notes provided financing for constructing improvements and extensions to the water system. The notes are payable solely from water customer net receipts and are payable through 2018 and 2029, respectively. The total principal and interest remaining to be paid on the bonds is \$1,394,292. For the current year, principal and interest paid and total customer net receipts were \$102,222 and \$94,158, respectively.

Sewer

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,732,000 in sewer revenue notes issued in July and December, 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$1,534,797. For the current year, principal and interest paid and total customer net receipts were \$116,420 and \$181 respectively.

Electric

The city has pledged future electric customer receipts, net of specified operating disbursements, to repay \$775,000 in electric revenue refunding bonds issued in June, 2011. Proceeds from the notes provided financing to retire the outstanding balance, on the call date of August 1, 2011, of \$860,000 of the \$1,900,000 electric revenue capital loan notes issued in February, 2001. The notes are payable solely from electric customer net receipts and are payable through 2017. The total principal and interest remaining to be paid on the notes is \$809,930. For the current year, principal and interest paid and total customer net receipts were \$180,730 and \$244,926 respectively.

Telecommunications

The city has pledged future telecommunication customer receipts, net of specified operating disbursements, to repay \$765,000 in revenue refunding bonds issued in June, 2011. Proceeds from the notes provided financing to retire the outstanding balance of \$780,000 of the \$1,300,000 telecommunications revenue capital loan notes issued March 1, 2004. The notes are payable solely from telecommunication customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$733,796. For the current year, principal and interest paid and total customer net receipts were \$117,855 and \$110,679 respectively.

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate sewer, electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.



CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

3. NOTES PAYABLE - (Continued)

- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$77,500 for electric, \$76,500 for telecommunications, and \$40,000 for water.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$3,675 for the year ended June 30, 2012. Minimum amounts payable under this operating lease are as follows:

Year Ending June 30	
2013	\$ 3,360
2014	3,360
2015	3,360
2016	3,360
2017	2,240

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, 2010, were \$50,092, \$42,497, and \$43,220 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the Enterprise Funds, is as follows:

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

6. COMPENSATED ABSENCES – (Continued)

<u>Type of Benefit</u>	
Vacation	\$ 22,059
Sick Leave	<u>158,983</u>
Total	<u>\$ 181,042</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay in effect at June 30, 2012.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$18,775 for the year ended June 30, 2012.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure costs to the agency have been estimated at \$2,105,115 as of June 30, 2011, which is the latest information available, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2011, deposits of \$1,481,831 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2012, consists of the following:

Transmission capacity	\$ 281,602
Members' advances for transmission capacity	177,457
Other members' capital	19,286
Membership	<u>100</u>
	<u>\$ 478,445</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 15 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$468 for single coverage, \$959 for spouse only coverage, and \$1,437 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$189,357 and plan members eligible for benefits contributed \$6,872 to the plan.

10. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 15,000
	Nonmajor governmental funds	96,422
	Enterprise:	
	Electric	48,161
	Gas	30,441
		<u>190,024</u>
Special Revenue:		
Road Use	Nonmajor governmental funds	<u>4,262</u>
Tax increment financing	Special Revenue:	
	Road Use Tax	<u>14,507</u>
Nonmajor governmental funds	Special Revenue:	
	Local Option Sales Tax	117,157
	Tax increment financing	38,867
		<u>156,024</u>
Enterprise:	Special Revenue:	
Sewer	Tax increment financing	<u>119,723</u>
Total		<u>\$ 484,540</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

11. RISK MANAGEMENT

City of Hartley is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

13. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$2,500,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa; \$2,419,373 is outstanding at June 30, 2012. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

14. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling \$22,955 during the year ended June 30, 2012.

## OTHER INFORMATION

CITY OF HARTLEY  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –  
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION  
YEAR ENDED JUNE 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 351,174	\$ -	\$ 351,174	\$ 345,401	\$ 345,401	\$ 5,773
Tax increment financing	260,922	-	260,922	244,958	244,958	15,964
Other city tax	149,112	-	149,112	125,000	125,000	24,112
Licenses and permits	4,435	-	4,435	3,200	3,200	1,235
Use of money and property	61,638	60,433	122,071	100,591	100,591	21,480
Intergovernmental	251,754	5,000	256,754	415,909	415,909	(159,155)
Charges for service	81,780	2,904,622	2,986,402	3,178,100	3,178,100	(191,698)
Special assessments	-	-	-	250	250	(250)
Miscellaneous	71,766	162,691	234,457	154,516	154,516	79,941
Total receipts	<u>1,232,581</u>	<u>3,132,746</u>	<u>4,365,327</u>	<u>4,567,925</u>	<u>4,567,925</u>	<u>(202,598)</u>
Disbursements:						
Public safety	260,136	-	260,136	358,810	358,810	98,674
Public works	221,535	-	221,535	184,861	234,861	13,326
Culture and recreation	195,145	-	195,145	223,444	223,444	28,299
Community and economic development	159,956	-	159,956	287,784	287,784	127,828
General government	94,302	-	94,302	126,922	126,922	32,620
Debt service	120,210	-	120,210	120,111	120,211	1
Business type activities	-	3,207,241	3,207,241	3,681,385	3,681,385	474,144
Total disbursements	<u>1,051,284</u>	<u>3,207,241</u>	<u>4,258,525</u>	<u>4,983,317</u>	<u>5,033,417</u>	<u>774,892</u>
Excess (deficiency) of receipts over disbursements	181,297	(74,495)	106,802	(415,392)	(465,492)	572,294
Other financing sources, net	<u>(41,121)</u>	<u>41,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	140,176	(33,374)	106,802	(415,392)	(465,492)	572,294
Balance, beginning of year	<u>1,094,008</u>	<u>2,219,430</u>	<u>3,313,438</u>	<u>3,520,619</u>	<u>3,520,619</u>	<u>(207,181)</u>
Balance, end of year	<u>\$ 1,234,184</u>	<u>\$ 2,186,056</u>	<u>\$3,420,240</u>	<u>\$ 3,105,227</u>	<u>\$ 3,055,127</u>	<u>\$ 365,113</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
NOTES TO OTHER INFORMATION  
BUDGETARY REPORTING  
JUNE 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2012 the budget was amended one time which increased budgeted disbursements by \$50,100. The budget amendment is reflected in the final budgeted amounts.

## SUPPLEMENTARY INFORMATION



CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	<u>Special Revenue</u>			<u>Permanent</u>		
	Employee	Economic	Owner	Debt	Cemetery	
	Benefits	Development	Occupied	Service	Perpetual	Total
			Rehab		Care	
Receipts:						
Property tax	\$ 102,665	\$ -	\$ -	\$ 32,083	\$ -	\$ 134,748
Intergovernmental	-	-	66,531	-	-	66,531
Miscellaneous	-	29,199	10,831	-	600	40,630
Total receipts	<u>102,665</u>	<u>29,199</u>	<u>77,362</u>	<u>32,083</u>	<u>600</u>	<u>241,909</u>
Disbursements:						
Operating:						
Community and economic development	-	76,904	82,169	-	-	159,073
Debt Service	-	-	-	83,663	-	83,663
Total disbursements	<u>-</u>	<u>76,904</u>	<u>82,169</u>	<u>83,663</u>	<u>-</u>	<u>242,736</u>
Excess (deficiency) of receipts over disbursements	<u>102,665</u>	<u>(47,705)</u>	<u>(4,807)</u>	<u>(51,580)</u>	<u>600</u>	<u>(827)</u>
Other financing sources (uses):						
Transfers in	-	72,362	-	83,662	-	156,024
Transfers out	<u>(100,683)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,683)</u>
Total other financing sources and uses	<u>(100,683)</u>	<u>72,362</u>	<u>-</u>	<u>83,662</u>	<u>-</u>	<u>55,341</u>
Net change in cash balances	1,982	24,657	(4,807)	32,082	600	54,514
Cash balances beginning of year	<u>100,532</u>	<u>202</u>	<u>28,755</u>	<u>39,702</u>	<u>91,952</u>	<u>261,143</u>
Cash balances end of year	<u>\$ 102,514</u>	<u>\$ 24,859</u>	<u>\$ 23,948</u>	<u>\$ 71,784</u>	<u>\$ 92,552</u>	<u>\$ 315,657</u>
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ 92,552	\$ 92,552
Restricted for:						
Debt service	-	-	-	71,784	-	71,784
Other purposes	<u>102,514</u>	<u>24,859</u>	<u>23,948</u>	<u>-</u>	<u>-</u>	<u>151,321</u>
Total cash basis fund balances	<u>\$ 102,514</u>	<u>\$ 24,859</u>	<u>\$ 23,948</u>	<u>\$ 71,784</u>	<u>\$ 92,552</u>	<u>\$ 315,657</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Schedule 2

	<u>Enterprise</u>		
	<u>Solid</u>	<u>Consumer</u>	
	<u>Waste</u>	<u>Deposit</u>	<u>Total</u>
Operating Receipts:			
Use of money and property	\$ 730	\$ -	\$ 730
Charges for services	154,142	-	154,142
Miscellaneous	-	19,779	19,779
Total operating receipts	154,872	19,779	174,651
Operating disbursements:			
Business type activities	202,157	16,449	218,606
Excess (deficiency) of operating receipts over operating disbursements	(47,285)	3,330	(43,955)
Non-operating receipts			
Interest on investments	2,548	-	2,548
Net change in cash balances	(44,737)	3,330	(41,407)
Cash balances beginning of year	157,488	38,402	195,890
Cash balances end of year	<u>\$ 112,751</u>	<u>\$ 41,732</u>	<u>\$ 154,483</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 112,751</u>	<u>\$ 41,732</u>	<u>\$ 154,483</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2012

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed or Forgiven During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Revenue Notes:								
Electric	February 1, 2001	5.25%	\$ 1,900,000	\$ 145,000	\$ -	\$ 145,000	\$ -	\$ 27,224
Water	November 1, 2003	4.60 - 5.20	400,000	215,000	-	25,000	190,000	10,493
Sewer	July 20, 2004	3.00	1,300,000	987,000	-	58,000	929,000	29,610
Sewer	December 2, 2004	3.00	432,000	327,000	-	19,000	308,000	9,810
Water	July 1, 2009	3.00	1,000,000	922,000	5,000	39,000	888,000	27,729
Water-forgiven 2/14/2012	November 4, 2009	3.00	1,040,000	1,040,000	-	1,040,000	-	-
Electric refunding	June 1, 2011	1.00 - 2.40	775,000	775,000	-	-	775,000	8,506
Telecommunication refunding	June 1, 2011	1.30 - 3.45	765,000	765,000	-	105,000	660,000	12,855
Total			<u>\$ 7,612,000</u>	<u>\$ 5,176,000</u>	<u>\$ 5,000</u>	<u>\$ 1,431,000</u>	<u>\$ 3,750,000</u>	<u>\$ 126,227</u>
General Obligation Notes:								
Library	June 1, 2001	5.10	\$ 400,000	\$ 85,000	\$ -	\$ 40,000	\$ 45,000	\$ 4,295
Street Improvement	June 1, 2008	4.75	280,000	201,000	-	27,000	174,000	9,547
Water	July 1, 2009	3.00	560,000	519,000	-	22,000	497,000	15,570
Total			<u>\$ 1,240,000</u>	<u>\$ 805,000</u>	<u>\$ -</u>	<u>\$ 89,000</u>	<u>\$ 716,000</u>	<u>\$ 29,412</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
NOTE MATURITIES  
JUNE 30, 2012

Schedule 4

Year	Water Issued November 1, 2003		Sewer Issued July 20, 2004		Sewer Issued December 2, 2004		Water Issued July 1, 2009		Electric Refunding Issued June 1, 2011		Telecom Refunding Issued June 1, 2011		
Ending June 30	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2013	4.60%	\$ 30,000	3.00%	\$ 60,000	3.00%	\$ 20,000	3.00%	\$ 40,000	1.00%	\$ 165,000	1.30%	\$ 100,000	\$ 415,000
2014	4.75	30,000	3.00	61,000	3.00	20,000	3.00	41,000	1.30	165,000	1.75	100,000	417,000
2015	4.90	30,000	3.00	63,000	3.00	21,000	3.00	43,000	1.70	170,000	2.20	100,000	427,000
2016	5.00	30,000	3.00	65,000	3.00	22,000	3.00	44,000	2.10	175,000	2.50	100,000	436,000
2017	5.10	35,000	3.00	67,000	3.00	22,000	3.00	45,000	2.40	100,000	2.85	105,000	374,000
2018	5.20	35,000	3.00	69,000	3.00	23,000	3.00	47,000	-	-	3.45	105,000	279,000
2019	-	-	3.00	71,000	3.00	24,000	3.00	48,000	-	-	3.45	50,000	193,000
2020	-	-	3.00	73,000	3.00	24,000	3.00	50,000	-	-	-	-	147,000
2021	-	-	3.00	75,000	3.00	25,000	3.00	52,000	-	-	-	-	152,000
2022	-	-	3.00	78,000	3.00	26,000	3.00	53,000	-	-	-	-	157,000
2023	-	-	3.00	80,000	3.00	26,000	3.00	55,000	-	-	-	-	161,000
2024	-	-	3.00	82,000	3.00	27,000	3.00	57,000	-	-	-	-	166,000
2025	-	-	3.00	85,000	3.00	28,000	3.00	59,000	-	-	-	-	172,000
2026	-	-	-	-	-	-	3.00	61,000	-	-	-	-	61,000
2027	-	-	-	-	-	-	3.00	62,000	-	-	-	-	62,000
2028	-	-	-	-	-	-	3.00	64,000	-	-	-	-	64,000
2029	-	-	-	-	-	-	3.00	67,000	-	-	-	-	67,000
		<u>\$ 190,000</u>		<u>\$ 929,000</u>		<u>\$ 308,000</u>		<u>\$ 888,000</u>		<u>\$ 775,000</u>		<u>\$ 660,000</u>	<u>\$3,750,000</u>

General Obligation Notes

Year	Library Issued June 1, 2001		Street Improvement Issued June 1, 2008		Water Issued July 1, 2009		
Ending June 30	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2013	5.10%	\$ 45,000	4.75%	\$ 28,000	3.00%	\$ 22,000	\$ 95,000
2014	-	-	4.75	28,000	3.00	23,000	51,000
2015	-	-	4.75	29,000	3.00	24,000	53,000
2016	-	-	4.75	29,000	3.00	25,000	54,000
2017	-	-	4.75	30,000	3.00	25,000	55,000
2018	-	-	4.75	30,000	3.00	26,000	56,000
2019	-	-	-	-	3.00	27,000	27,000
2020	-	-	-	-	3.00	28,000	28,000
2021	-	-	-	-	3.00	29,000	29,000
2022	-	-	-	-	3.00	30,000	30,000
2023	-	-	-	-	3.00	31,000	31,000
2024	-	-	-	-	3.00	32,000	32,000
2025	-	-	-	-	3.00	33,000	33,000
2026	-	-	-	-	3.00	34,000	34,000
2027	-	-	-	-	3.00	35,000	35,000
2028	-	-	-	-	3.00	36,000	36,000
2029	-	-	-	-	3.00	37,000	37,000
		<u>\$ 45,000</u>		<u>\$ 174,000</u>		<u>\$ 497,000</u>	<u>\$ 716,000</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST TEN YEARS

Schedule 5

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:										
Property tax	\$ 351,174	\$ 342,427	\$ 302,921	\$ 285,470	\$ 343,191	\$ 331,406	\$ 257,032	\$ 258,995	\$ 268,036	\$ 259,089
Tax increment financing	260,922	190,144	189,906	197,368	129	51,597	252,592	225,368	195,663	190,439
Other city tax	149,112	148,085	106,729	174,170	144,957	133,908	105,092	104,751	100,648	102,318
Licenses and permits	4,435	3,565	4,295	3,567	5,812	4,822	2,504	1,722	2,276	2,078
Use of money and property	61,638	47,418	49,222	47,659	82,017	92,321	71,301	70,569	51,061	25,239
Intergovernmental	251,754	315,508	194,738	324,980	207,138	313,154	291,785	222,787	193,663	183,300
Charges for service	81,780	81,091	96,188	92,768	80,276	81,220	76,163	59,127	58,675	85,040
Special assessments	-	335	4,522	7,918	8,844	8,751	10,920	14,771	26,674	16,620
Miscellaneous	71,766	54,489	23,155	43,354	37,964	20,428	36,494	328,814	42,931	28,748
Total	<u>\$1,232,581</u>	<u>\$1,183,062</u>	<u>\$ 971,676</u>	<u>\$1,177,254</u>	<u>\$ 910,328</u>	<u>\$1,037,607</u>	<u>\$1,103,883</u>	<u>\$1,286,904</u>	<u>\$ 939,627</u>	<u>\$ 892,871</u>
Disbursements:										
Operating:										
Public safety	\$ 260,136	\$ 254,172	\$ 277,500	\$ 263,584	\$ 247,013	\$ 198,068	\$ 198,068	\$ 239,950	\$ 215,464	\$ 345,606
Public works	221,535	247,237	241,661	293,157	270,278	121,779	121,779	128,081	337,381	164,224
Culture and recreation	195,145	173,987	202,073	326,516	177,783	186,992	186,992	149,383	163,893	171,509
Community and economic development	159,956	169,291	126,477	526,164	218,560	137,104	137,104	64,821	107,193	2,791
General government	94,302	70,400	86,688	93,356	65,888	82,092	82,092	73,675	96,598	89,965
Debt service	120,210	123,135	88,798	56,470	58,660	57,460	57,460	59,300	61,000	67,503
Total	<u>\$1,051,284</u>	<u>\$1,038,222</u>	<u>\$1,023,197</u>	<u>\$1,559,247</u>	<u>\$1,038,182</u>	<u>\$ 783,495</u>	<u>\$ 783,495</u>	<u>\$ 715,210</u>	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
RICHARD R. MOORE, C.P.A. (RETIRED)  
WESLEY E. STILLE, C.P.A. (RETIRED)  
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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 29, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

The management of City of Hartley is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Hartley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hartley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Hartley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Hartley's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report, including federal awarding agencies and pass-through entities. This report is not intended to be, and should not be, used by anyone other than these specified parties.

Hummelman, Putzier & Co., PLC

March 29, 2013

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- I-A-12     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We will continue to look for ways to adjust our operating procedures to obtain the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

- I-B-12     Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - The City Clerk/Administrator will try to attend educational courses to be able to report financial data using OCBOA and work with our auditors to make sure we are reporting correctly.

Conclusion - Response accepted.



CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the public works function prior to the budget amendment passed May 29, 2012. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We try to control costs and time by amending the budget once a year and situations occur with City expenditures that are beyond our control. We will monitor funds more closely in the future and amend the budget before expenditures exceed the budget.

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-12 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kevin Snider, Council Member, owner of Snider Auto Care Center	Repairs/service	\$2,700
Sheri Tewes, Deputy Clerk, mother owns Fanning Construction	Labor and materials	\$2,975
Ron Hengeveld, Council Member, owner of Hengeveld Construction	Labor/roof repairs	\$17,280

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, all of the above transactions may represent a conflict of interest since the cumulative amount was more than \$2,500 during the fiscal year.

Recommendation - The Code does allow the City to transact business with City officers or employees in excess of \$2,500 but only if the contract is made subject to a competitive bid in writing, publicly invited, and opened. The City should consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - We will monitor our transactions and make sure we do not have conflict of interest and consult with our city attorney.

Conclusion - Response accepted.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- II-E-12    Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-12    Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-12    Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-H-12    Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.
- II-I-12    Payment of General Obligation Bonds – Certain general obligation bond payments were paid from the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states, in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax must be deposited in the debt service fund."

Recommendation - The City should transfer from Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – The City will adjust and transfer the appropriate funds to the Debt Service Fund to service the general obligation bonds.

Conclusion – Response accepted.

- II-J-12    Excess Balances - The following funds have a balance at June 30, 2012, which is in excess of one year's expenditures:

Special Revenue - Library Expendable Trust  
                              - Road Use Tax  
                              - Employee Benefits

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – Library Expendable Trust – The balance in this account is expendable only according to certain criteria of the trust when it was set up. This amount was received from an estate and it is disbursed according to the library's needs for the specified trust criteria as determined by the Library Board.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

II-J-12    Excess Balances – (Continued)

RUT – The excess balance is a result of an Equipment Replacement Plan where we set aside dollars for future replacement of multiple pieces of equipment. The balance will be spent as equipment is replaced.

Employee Benefits – The excess balance is due to unknown and volatile insurance costs. The City will try to reduce this balance in future years by adjusting the Employee Benefit Levy.

Conclusion – Response accepted.